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January 23, 2013

MEMORANDUM

TO: Legislative Finance Committee

THRU: Mr. David Abbey, Director

FROM: Ms. Elisa Walker-Moran, Chief Economist
Mr. Greg Geisler, Principal Analyst

SUBJECT: Methodology of Costs and Benefits of Medicaid Expansion

Expansion of Medicaid coverage for adults under the Affordable Care Act (ACA) will be implemented on January 1, 2014. Expansion of eligibility for low-income adults is optional for states, but other mandatory aspects of ACA will impact the state. New Mexico is one of the states that have chosen expansion, and HSD projects that up to 144 thousand low-income adults may enroll in Medicaid by 2020. On September 27, 2012 LFC staff and the Human Services Department (HSD) presented their cost and benefit analysis of the impact of the Medicaid Expansion to the LFC¹. This analysis was updated in response to new cost estimates received from HSD following the governor’s decision to expand Medicaid.

Revenues (table 1). The LFC staff used HSD’s cost estimates to determine the additional state revenues generated by the Medicaid expansion. At the request of LFC staff, the Bureau of Business and Economic Research (BBER) used the HSD cost estimates to determine that statewide personal income could increase 0.6 percent by FY20 due to the additional funding and employment impacts from the Medicaid expansion. Wages and salaries could increase 1 percent by FY20 due to the Medicaid expansion. BBER assumed that the employment multiplier from the Medicaid expansion is about 1.85. For every \$100 million dollars spent on Medicaid, 1,195

¹ LFC Hearing Brief, Implementation of Affordable Care Act - Costs and Benefits of Expansion of Medicaid Eligibility - September 2012

total jobs are created - 646 direct jobs, and 550 indirect/induced jobs. Total employment could increase almost 1 percent each year.

LFC staff used the personal income impact from BBER to roughly estimate the total revenue impact on personal income taxes. PIT liabilities could increase about 0.4 percent in FY14 and 0.6 percent in FY20. The state could collect an additional \$2.6 million in FY14, and \$8.3 million in FY20 when fully implemented. BBER's estimate of the impact on wages and salaries was used to estimate the revenue impact on gross receipts taxes. The state could collect an additional \$6.6 million in FY14, and \$12.5 million in FY20 when fully implemented. Premiums from the additional children and adults enrolled due to the woodwork effect are not included—it is the view of LFC staff that these are not an expansion related-cost. Also, premiums received from the existing State Coverage Initiative (SCI) insurance program, at the current federal match rate, are not included.

The largest revenue increase comes from additional premium taxes due to expansion, which could generate \$9.5 million in additional revenues in FY14 and \$33.6 million in FY20 when fully implemented. Also, LFC staff assumed that 80 percent of the individuals in the New Mexico Medical Insurance Pool (NMMIP) for high cost patients will move to the exchange. The NMMIP reduction is about \$33.9 million per year starting in FY15.

Table 1. REVENUES

LFC Revenues from Medicaid Expansion only							
(Includes Induced Effects, general fund in millions of dollars)							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PIT Increase	2.6	6.1	7.7	8.4	8.6	8.5	8.3
GRT Increase	6.6	9.3	11.0	11.7	12.0	12.3	12.5
NMMIP Reduction *		33.9	33.9	33.9	33.9	33.9	33.9
Premium Tax:							
Woodwork only	Not included						
Expansion only	9.5	23.3	27.2	29.2	30.2	32.3	33.6
Total LFC Revenues	18.7	72.6	79.9	83.2	84.6	87.0	88.3
* 80% of pool moves to exchange.							
Sources: BBER, HSD, LFC Files							

Expenditures (table 2). Coverage of newly eligible adults from the Medicaid expansion causes additional expenditures for the HSD starting in FY17. The federal match is 100 percent in the first three years, declines to 95 percent in 2017, and continues at 90% in 2020 and beyond. Starting in FY17 this expenditure is \$19 million for new enrollees, rising to \$75 million in FY20. The SCI population is newly eligible under ACA but the entire costs, \$16 million by FY20, have not been included in this analysis because HSD is currently incurring the cost of the SCI program. There will be a higher federal match for the SCI population due to ACA, which will save the state money. The reduced general fund need or cost savings to the state is \$22.2 million

in FY14 and \$7.9 million in FY20. According to the HSD, administrative costs relating to the expansion will be about \$2.8 million per year.

LFC staff's original estimate has been modified to include additional impacts provided by HSD. Per HSD, the estimate for Medicaid without SCI under healthcare reform contains a new insurer's fee and a higher modified inflator (the base assumes CPI growth). This new tax is estimated at minimum to have a 1.9 percent impact on costs. In addition, they use a modified inflator to account for a potential increase in costs due to unknown risks of the uninsured population. This additional cost to the base program as well as the woodwork effect is not included in the LFC revised estimate.

The revised LFC estimate does include additional savings from the enhanced Children’s Health Insurance Program (CHIP) rates, and potential savings (subject to legislature approval) from decreasing spending in behavioral health spending as clients served by other non-Medicaid programs move to Medicaid. Additional expenditures include the ACA-mandated physician fee increase, and the modified adjusted gross income (MAGI) woodwork effect, which may increase the number of children eligible for Medicaid.

Table 2. EXPENDITURES

LFC Expenditures on Medicaid Expansion only							
(General fund in millions of dollars)							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Newly Eligible Adults	-	-	-	19.2	43.8	55.3	75.1
SCI Add. match	(22.2)	(42.0)	(38.1)	(29.7)	(20.8)	(15.4)	(7.9)
Admin. Costs	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total LFC Expenditures	(13.1)	(23.0)	(15.7)	14.1	49.6	69.5	113.7
<i>Additional costs added to original analysis:</i>							
Enhanced CHIP Rate	-	-	(11.5)	(15.6)	(15.8)	(16.1)	(4.1)
Physician Fee Increase	1.9	4.1	6.3	6.3	6.3	6.3	6.3
MAGI Woodwork	4.6	10.9	3.1	-	-	-	14.7
Behavioral Health	(5.9)	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)
Admin Diff	(1.4)	-	-	-	-	-	-
Woodwork & Other ACA Effects Not Included							
Revised Expenditures	(13.9)	(25.2)	(35.0)	(12.4)	22.9	42.5	113.4

Sources: HSD, LFC Files

Summary (table 3). On January 8 Governor Martinez announced that New Mexico will expand Medicaid. LFC analysis shows the revenues outweigh the expenditures in the first six years as the match is phased down. When the program is fully implemented in FY20 the state may incur additional costs. The benefits minus the costs are presented in the table below. Under this high-level scenario the state will gain \$32 million in FY14 but will begin to pay an additional \$25 million in FY20. Six years after implementation, when the state has to pay 10 percent of the costs in FY20, the direct costs start to outweigh the revenues.

Table 3. Revenues and Expenditures from Medicaid Expansion							
(General fund in millions of dollars)							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Total Revenues	18.7	72.6	79.9	83.2	84.6	87.0	88.3
Total Expenditures	(13.9)	(25.2)	(35.0)	(12.4)	22.9	42.5	113.4
State Gain/(Loss) *	32.5	97.7	114.9	95.6	61.7	44.5	(25.2)
* Revenues minus expenditures				Sources: BBER, HSD, LFC Files			